

SECT 1122

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(i) by striking out subparagraph (B) and by redesignating subparagraphs (C), (D), and (E) as subparagraphs (B), (C), and (D), respectively, and

(ii) by striking out "The initial separate tax" in subparagraph (B) (as so redesignated) and inserting in lieu thereof "The amount of tax imposed by subparagraph (A)", and

(iii) by striking out "INITIAL SEPARATE" in the heading of subparagraph (B) (as so redesignated) and inserting in lieu thereof "AMOUNT OF TAX".

(B) Paragraph (3) of section 402(e) is amended by striking out "the ordinary income portion" and inserting in lieu thereof "total taxable amount".

(C) Paragraph (4) of section 402(e) is amended by striking out subparagraphs (E), (F), and (L).

(D) Subparagraph (H) of section 402(e)(4) is amended by striking out "(but not for purposes of subsection (a)(2) or section 403(a)(2)(A))".

(c) AMENDMENTS TO SECTION 72.—

(1) REPEAL OF SPECIAL RULE FOR EMPLOYEES' ANNUITIES.—Subsection (d) of section 72 (relating to

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1 employee's annuities where employee's contributions
2 recoverable in 3 years) is hereby repealed.

3 (2) AMOUNT EXCLUDED UNDER EXCLUSION
4 RATIO LIMITED TO EMPLOYEE'S INVESTMENT IN THE
5 CONTRACT.—Subsection (b) of section 72 (relating to
6 exclusion ratio) is amended to read as follows:

7 “(b) EXCLUSION RATIO.—

8 “(1) IN GENERAL.—Gross income does not in-
9 clude that part of any amount received as an annuity
10 under an annuity, endowment, or life insurance con-
11 tract which bears the same ratio to such amount as the
12 investment in the contract (as of the annuity starting
13 date) bears to the expected return under the contract
14 (as of such date).

15 “(2) EXCLUSION LIMITED TO INVESTMENT.—
16 The portion of any amount received as an annuity
17 which is excluded from gross income under paragraph
18 (1) shall not exceed the unrecovered investment in the
19 contract immediately before the receipt of such
20 amount.

21 “(3) DEDUCTION WHERE ANNUITY PAYMENTS
22 CEASE BEFORE ENTIRE INVESTMENT RECOVERED.—
23 If—

1 amount actually paid or made available to any benefi-
2 ary under such contract shall be taxable to the benefi-
3 ciary (in the year in which so paid or made available)
4 under section 72 (relating to annuities)."

5 (e) EFFECTIVE DATE.—

6 (1) IN GENERAL.—Except as otherwise provided
7 in this subsection, the amendments made by this sec-
8 tion shall apply to amounts distributed after Decem-
9 ber 31, 1985, in taxable years ending after such date.

10 (2) REPEAL OF SPECIAL RULE FOR EMPLOYEES'
11 ANNUITIES.—The amendments made by paragraph (1)
12 of subsection (c) shall apply where the annuity starting
13 date is after July 1, 1986.

14 (3) SPECIAL RULE FOR INDIVIDUALS WHO
15 ATTAIN AGE 50 BEFORE JANUARY 1, 1986.—

16 (A) IN GENERAL.—In the case of a lump
17 sum distribution to which this paragraph
18 applies—

19 (i) the existing capital gain provisions
20 shall continue to apply, and

21 (ii) the requirement of subparagraph (B)
22 of section 402(e)(4) of the Internal Revenue
23 Code of 1985 (as amended by subsection (a))
24 that the distribution be received after attain-
25 ing age 59½ shall not apply (and appropri-